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C O N F I D E N T I A L SECTION 01 OF 02 MOSCOW 002874

SIPDIS

DEPT FOR EUR/RUS, EEB/ESC/IEC GALLOGLY AND GREENSTEIN,  
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DOC FOR JBROUGH  
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TAGS: EPET ENRG ECON PREL RS UP

SUBJECT: PUTIN-TYMOSHENKO GAS AGREEMENT SHOULD HELP PREVENT  
WINTER GAS CRISIS

REF: A. MOSCOW 2277

¶B. MOSCOW 2834

Classified By: Ambassador John R. Beyrle for Reasons 1.4 (b/d)

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Summary  
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¶1. (C) PM Putin said in a joint November 20 press conference with PM Tymoshenko in Ukraine that Russia will not penalize Ukraine for having taken less gas than contracted. He also confirmed that Gazprom and Ukraine will sign new contracts for 2010 that will call for lower Ukrainian purchase volumes and higher transit tariffs charged to Russia. The Russian position on fines, volumes, and transit tariffs appears to indicate a Russian desire to avoid another conflict over gas this winter. To many observers, including much of the Russian mass media, it also implies Moscow's support for Tymoshenko in the Ukrainian presidential election, a view echoed to us by the Ukrainian Embassy here. Overall, it is a clear sign that the Kremlin and Gazprom appreciate that Russia simply cannot afford a repeat of last year's gas shut-off fiasco. End summary.

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"NO SANCTIONS WILL BE APPLIED"  
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¶2. (SBU) PM Putin announced in unusually clear terms during a joint November 20 press conference in Yalta with PM Tymoshenko that Russia would not fine Ukraine for having purchased far less gas than it was obligated to buy under its January 2009 contract. "Let me repeat this publicly - no sanctions will be applied," he said in response to a question seeking clarity on the issue. Putin thus appears to have eliminated what many observers saw as a primary potential cause of a future Russia-Ukraine gas crisis. Furthermore, Putin told the gathered press that the 2010 gas contract would be adjusted to suit Ukraine's projected lower gas demand (again with no fines) and that Russia would pay 60% higher transit tariffs to Ukraine. Ukraine, for its part, would no longer receive any discount from the price other European customers pay Gazprom.

¶3. (C) Ivan Zolotov (protect), Gazprom's Director of Foreign Relations, told us that Putin's statement on the fines simply reflected a decision Gazprom already made and what he has been telling us (ref A) and others for the past several

months: that the take-or-pay provision in the contract would not be enforced. He also confirmed that the 2010 volumes in the contract will be lowered in line with Ukraine's demand and that transit tariffs will be raised. He questioned, however, the 60% figure used by Putin, which had also been previously suggested by Tymoshenko. He simply said that tariffs would "be in line with internationally accepted standards" and will be worked out by negotiators working on the contract. Zolotov noted that the decision on foregoing fines and renegotiating the contract with Ukraine could set an unwelcome precedent that could support other European customers who are also seeking contract modifications.

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LOWER LIKELIHOOD OF CONFLICT  
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¶4. (C) Most media stories and many analysts noted that the Putin-Tymoshenko agreement lowers the chances of repeating last year's gas crisis. Zolotov also believes the agreements should help prevent a conflict -- "I will not be canceling my January vacation." Ukrainian Embassy Economic Counselor Vladimir Zaritsky told us he agreed with this assessment. He added that there also should not be any problems with payments for the gas Ukraine does consume, and that his Ministry of Economy has assured him that Ukraine is able to pay its gas bills.

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IS PUTIN BACKING TYMOSHENKO?  
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¶5. (C) Zaritsky said he personally believes that a main driver of Russia's seemingly forgiving position on the gas issue is Putin's support for Tymoshenko in the upcoming Ukrainian presidential elections. Two Russian oil and gas analysts agreed with the view, telling us prior to the November 20 announcement that Putin's recent positive commentary following his meetings with Tymoshenko indicate he is backing her in the elections. This position has also been adopted by the Russian mass media, which was quick to interpret the Putin-Tymoshenko gas agreement as a sign of Moscow's support for Tymoshenko. Other observers took a more nuanced approach, with Public Chamber member Iosif Diskin stating on a Moscow TV channel (with a straight face) that Russia does not interfere in Ukraine's internal affairs. Tatyana Stanovaya on politcom.ru wrote that the Kremlin is ready to deal with any Ukrainian leader. She saw Tymoshenko only as a "situational ally" in avoiding another gas war that could provoke Ukrainian President Yushchenko.

¶6. (C) Ukraine's Ambassador to Moscow, Konstantin Hryshchenko agreed that the meeting in Yalta amounted to a political boost for Tymoshenko, since "there are enough fools in Ukraine" to be taken in by the Kremlin's effort to spin the story that way. Hryshchenko (whose political ties are to Yushchenko) complained to Ambassador Beyrle November 23 that the bulk of the meeting between Putin and Tymoshenko was (again) one-on-one, and thus the long-term tradeoffs for Russia's more accommodating position on penalties would remain unclear. "We will have to pay for this, obviously, but when and how much, nobody knows."

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COMMENT  
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¶7. (C) The agreement, coupled with the positive tone struck by Putin in the press conference and the "early warning" agreement reached between Russia and the EU (ref B), should indeed help prevent another conflict over gas this winter. It is worth noting that many details of a future contract still have to be worked out, leaving room for future tensions. Putin and Tymoshenko may have simply punted the

potentially divisive negotiations over contract details to the post-election period. Ukraine seems to have benefited from a confluence of factors that make a gas war detrimental to Russia. First, another gas crisis would be damaging to Gazprom's already troubled finances and reputation. Second, the Russian economy is just emerging from recession and the GOR cannot afford to spook cautious foreign investors looking to return. Finally, Russia has an almost existential interest in the outcome of the Ukrainian presidential election and will do all it can to ensure that whoever benefits from the perception that Russia is making concessions to Ukraine, it is not Viktor Yushchenko.

Beyrle